

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Frankfort, Michigan	County Benzie
Fiscal Year End June 30, 2006	Opinion Date September 29, 2006	Date Audit Report Submitted to State December 22, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature <i>Kenneth A. Talsma</i>	Printed Name Kenneth A. Talsma		License Number 1101024989

CITY OF FRANKFORT, MICHIGAN

BASIC FINANCIAL STATEMENTS

June 30, 2006

CITY OF FRANKFORT, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR	RICHARD BAYER
COMMISSIONER	MYRA ELIAS
COMMISSIONER	JOANN HOLWERDA
COMMISSIONER	NORMA ELIAS
COMMISSIONER	RICHARD JENKINS

APPOINTED OFFICERS

CITY SUPERINTENDENT	JOSH MILLS
CLERK/TREASURER	KIM KIDDER
CHIEF OF POLICE	KEITH REDDER

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Frankfort, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City of Frankfort, Michigan's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29 2006 on our consideration of the City of Frankfort, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frankfort, Michigan's basic financial statements. The combining nonmajor financial statements identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements taken as a whole.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 29, 2006

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 4% from a year ago decreasing from \$4,623,937 to \$4,458,433. The governmental activities experienced a \$105,437 decrease in net assets primarily due to outlays to construct a new fire hall. The business-type activities experienced a \$43,459 decrease in net assets, primarily as a result of current year depreciation expenses.

In a condensed format, the table below shows comparison of the net assets of the City of Frankfort.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current Assets	\$ 501,891	\$ 630,695	\$ 655,353	\$ 621,888	\$ 1,157,244	\$ 1,252,583
Noncurrent Assets	3,815,746	2,731,833	3,625,311	3,759,560	7,441,057	6,491,393
Total Assets	4,317,637	3,362,528	4,280,664	4,381,448	8,598,301	7,743,976
Current Liabilities	187,089	1,935,230	92,662	900,000	279,751	2,835,230
Noncurrent Liabilities	3,025,117	202,613	835,000	82,196	3,860,117	284,809
Total Liabilities	3,212,206	2,137,843	927,662	982,196	4,139,868	3,120,039
Net Assets						
Invested in Capital Assets -						
Net of Debt	831,211	849,688	2,725,311	2,799,560	3,556,522	3,649,248
Restricted	5,808	5,582	315,590	315,590	321,398	321,172
Unrestricted	268,412	369,415	312,101	284,102	580,513	653,517
Total Net Assets	\$ 1,105,431	\$ 1,224,685	\$ 3,353,002	\$ 3,399,252	\$ 4,458,433	\$ 4,623,937

The current level of unrestricted net assets for our governmental activities stands at \$268,412, or about 13% of expenditures. This is within the targeted range set by the City Board of Directors during its last budget process.

The following table shows the activities of the City.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Charges for Services	\$ 218,562	\$ 240,960	\$ 1,047,738	\$ 1,048,289	\$ 1,266,300	\$ 1,289,249
Operating Grants and Contributions	340,255	344,581	12,826	14,535	353,081	359,116
General Revenues						
Property Taxes	963,063	1,017,341	-	-	963,063	1,017,341
State-Shared Revenues	146,059	147,576	-	-	146,059	147,576
Federal, State, Local – General	30,778	10,740	-	-	30,778	10,740
Unrestricted Investment Earnings	<u>8,887</u>	<u>8,824</u>	<u>4,281</u>	<u>3066</u>	<u>13,168</u>	<u>11,890</u>
Total Revenues	<u>1,707,604</u>	<u>1,770,022</u>	<u>1,064,845</u>	<u>1,065,890</u>	<u>2,772,449</u>	<u>2,835,912</u>
Program Expenses						
Legislative	2,284	2,055	-	-	2,284	2,055
General Government	565,863	503,612	-	-	565,863	503,612
Public Safety	523,987	420,698	-	-	523,987	420,698
Public Works	561,508	630,595	-	-	561,508	630,595
Recreation and Culture	150,558	144,843	-	-	150,558	144,843
Interest Expense – Unallocated	86,090	57,002	-	-	86,090	57,002
Other Expenses	4,701	69,125	-	-	4,701	69,125
Water and Sewer	-	-	656,096	791,087	656,096	791,087
Marina	-	-	322,025	316,680	322,025	316,680
Garbage and Rubbish	<u>-</u>	<u>-</u>	<u>48,183</u>	<u>43,601</u>	<u>48,183</u>	<u>43,601</u>
Total Expenses	<u>1,894,991</u>	<u>1,827,930</u>	<u>1,026,304</u>	<u>1,151,368</u>	<u>2,921,295</u>	<u>2,979,298</u>
Change in Net Assets before Transfers	(187,387)	(57,908)	38,541	(85,478)	(148,846)	(143,386)
Transfers	<u>82,000</u>	<u>5,000</u>	<u>(82,000)</u>	<u>(5,000)</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	(105,387)	(52,908)	(43,459)	(90,478)	(148,846)	(143,386)
Net Assets – Beginning	1,224,685	1,277,593	3,399,252	3,489,730	4,623,937	4,767,323
Prior Period Adjustment	(13,867)	-	(2,791)	-	(16,658)	-
Net Assets – Beginning - Restated	<u>1,210,818</u>	<u>-</u>	<u>3,396,461</u>	<u>-</u>	<u>4,607,279</u>	<u>-</u>
Net Assets – Ending	<u>\$ 1,105,431</u>	<u>\$ 1,224,685</u>	<u>\$ 3,353,002</u>	<u>\$ 3,399,252</u>	<u>\$ 4,458,433</u>	<u>\$ 4,623,937</u>

Governmental Activities

Revenue from property taxes decreased 5% from the previous year decreasing from \$1,017,341 to \$963,063. This is due to the fact that there was one less millage (the Main Street Bond) in fiscal 2006.

Expenses increased by \$67,061. This increase was primarily due to capital outlay incurred to construct a new Fire Hall.

Business-Type Activities

The City's total business-type revenues decreased by approximately \$1,045, primarily due to marina, garbage and rubbish revenues.

Expenses decreased by about \$125,064 during the year. The most significant decreases were plant operation and contractual services for the water and sewer fund.

The City's Funds

Our analysis of the City's major funds begins on page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2006 include the General Fund, Major Streets, Local Streets, 2005 General Obligation Fire Hall, 2005 Unlimited Obligation Fire Hall, Water and Sewer, and Marina Funds.

The General Fund pays for most of the City's governmental services. The most significant are Public Safety and General Government, which incurred expense of approximately \$766,691 in 2006. These two services are mostly supported by property taxes and revenue sharing.

Major and Local Streets use Act 51 monies to maintain and construct the City's streets. In 2006, \$152,699 was received from the State of Michigan and \$262,468 was spent for the construction and maintenance of streets. Transfers of \$104,395 were received from the general fund to supplement state funds.

2005 General Obligation Fire Hall and 2005 Unlimited Obligation Fire Hall funds account for the receipt of bond proceeds used to finance the construction of the City's new Fire Hall.

The Water and Sewer fund provide water and waste water service to nearly 936 customers in 2006. The fund generated \$682,667 in user fees and spent \$633,641 in operations.

The Marina fund provides docking and fuel sales to an average of 1,000 vessels a year. In 2006, the marina generated \$338,985 in user fees and spent \$315,950 in operations. The increase in fuel costs increased revenues and expenses in 2006. Overall the marina fund had a great year of operations.

The Marina filled 34 seasonal slips and 900 transient slips in 2006. Many repeat customers and many new customers from Grand Haven, Chicago, and Wisconsin. Over one half of the seasonal slips have already been reserved for next season.

General Fund Budgetary Highlights

Over the course of the year, the City board amended the budget to take into account events during the year. There were no significant changes to revenue during the year. The most significant variance relating to expenditures was under capital outlay, which exceeded budget by \$285,385. This variance occurred because the note proceeds and related capital outlay for the City's new fire truck and dump truck was not budgeted. This allowed the General Fund's fund balance to decrease from \$340,246 a year ago to 279,019 at June 30, 2006.

Capital Asset and Debt Administration

At the end of 2006, the City had \$7,441,057 invested in a broad range of capital assets, including Water and Sewer System, Marina, Building and Improvements, Machinery and Equipment, and Land.

The City reduced its bond debt load by \$156,150 in principal payments in fiscal year 2006 and increased it by \$1,218,479, ending with a bond debt balance of \$3,872,657.

Economic Factors and Next Year's Budgets and Rates

The City is in a budget battle from year to year. Normally, the cap on the growth rate under the Headlee Amendment, the voters reluctance to adjust or augment taxes for general operation, and the corresponding double digit growth rates in health and liability insurance have put significant limitations on budget flexibility. There are looming indications from the State that further cuts will occur in State Revenue Sharing and possibly other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in all but one major fund, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the City.

Basic Financial Statements

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Totals
ASSETS:			
Current Assets:			
Cash & Investments - Unrestricted	\$ 80,348	\$ 195,348	\$ 275,696
- Restricted	303,113	368,649	671,762
Accounts Receivable	-	70,848	70,848
Due from Governmental Units	117,140	-	117,140
Inventories	-	16,881	16,881
Other Assets	1,290	3,627	4,917
Total Current Assets	501,891	655,353	1,157,244
Noncurrent Assets			
Capital Assets (Not Depreciated)	1,223,657	17,000	1,240,657
Capital Assets (Net of Accumulated Depreciation)	2,592,089	3,608,311	6,200,400
Total Noncurrent Assets	3,815,746	3,625,311	7,441,057
TOTAL ASSETS	\$ 4,317,637	\$ 4,280,664	\$ 8,598,301
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 13,736	\$ 16,343	\$ 30,079
Accrued Liabilities	13,653	1,632	15,285
Accrued Interest Payable	24,705	5,533	30,238
Due to Governmental Units	881	4,154	5,035
Capital Leases	11,878	-	11,878
Installment Loans	52,236	-	52,236
Bonds Payable	70,000	65,000	135,000
Total Current Liabilities	187,089	92,662	279,751
Noncurrent Liabilities			
Compensated Absences	174,696	-	174,696
Installment Loans	253,421	-	253,421
Bonds Payable	2,597,000	835,000	3,432,000
Total Noncurrent Liabilities	3,025,117	835,000	3,860,117
TOTAL LIABILITIES	3,212,206	927,662	4,139,868
NET ASSETS:			
Invested in Capital Assets (net of related debt)	831,211	2,725,311	3,556,522
Restricted for Trust Purposes	5,808	-	5,808
Restricted for Debt	-	315,590	315,590
Unrestricted	268,412	312,101	580,513
TOTAL NET ASSETS	\$ 1,105,431	\$ 3,353,002	\$ 4,458,433

City of Frankfort, Michigan

Statement of Activities For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Legislative	\$ 2,284	\$ -	\$ -	\$ -	\$ (2,284)	\$ -	\$ (2,284)
General Government	565,863	135,528	27,367	-	(402,968)	-	(402,968)
Public Safety	523,987	10,062	43,580	-	(470,345)	-	(470,345)
Public Works	561,508	482	269,083	-	(291,943)	-	(291,943)
Recreation & Culture	150,558	72,490	225	-	(77,843)	-	(77,843)
Interest expense - Unallocated	86,090	-	-	-	(86,090)	-	(86,090)
Other Expenses	4,701	-	-	-	(4,701)	-	(4,701)
Total Governmental Activities	1,894,991	218,562	340,255	-	(1,336,174)	-	(1,336,174)
Business-type activities:							
Water & Sewer	656,096	671,540	12,826	-	-	28,270	28,270
Marina	322,025	337,573	-	-	-	15,548	15,548
Garbage & Rubbish	48,183	38,625	-	-	-	(9,558)	(9,558)
Total Business-type Activities	1,026,304	1,047,738	12,826	-	-	34,260	34,260
Total Primary Government	\$ 2,921,295	\$ 1,266,300	\$ 353,081	\$ -	(1,336,174)	34,260	(1,301,914)
General Revenues:							
Taxes					963,063	-	963,063
State Revenue Sharing					146,059	-	146,059
Federal, State, & Local - General					30,778	-	30,778
Investment Earnings (Loss)					8,887	4,281	13,168
Transfers					82,000	(82,000)	-
Total General Revenues and Transfers					1,230,787	(77,719)	1,153,068
Change in Net Assets					(105,387)	(43,459)	(148,846)
Net Assets - Beginning					1,224,685	3,399,252	4,623,937
Prior Period Adjustment					(13,867)	(2,791)	(16,658)
Net Assets - Beginning, Restated					1,210,818	3,396,461	4,607,279
Net Assets - Ending					\$ 1,105,431	\$ 3,353,002	\$ 4,458,433

See accompanying notes to financial statements.

City of Frankfort, Michigan

Balance Sheet Governmental Funds June 30, 2006

	General	Major Streets	Local Streets	2005 General Obligation Fire Hall	2005 Unlimited Obligation Fire Hall	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash & Investments - Unrestricted	\$ 153	\$ 10,513	\$ 874	-	-	\$ 68,808	\$ 80,348
- Restricted	157,526	15,031	-	12,015	6,561	111,980	303,113
Due from Other Funds	56,630	-	-	-	-	-	56,630
Other Assets	387	-	903	-	-	-	1,290
Due from Governmental Units	81,556	15,057	6,054	-	-	14,473	117,140
TOTAL ASSETS	\$ 296,252	\$ 40,601	\$ 7,831	\$ 12,015	\$ 6,561	\$ 195,261	\$ 558,521
LIABILITIES:							
Due to Other Funds	\$ -	\$ 39,299	\$ 7,831	-	-	\$ 9,500	\$ 56,630
Accounts Payable	3,992	9	-	-	-	9,735	13,736
Accrued Liabilities	12,360	1,293	-	-	-	-	13,653
Due to Governmental Units	881	-	-	-	-	-	881
TOTAL LIABILITIES	17,233	40,601	7,831	-	-	19,235	84,900
FUND BALANCES:							
Reserved for Trust	-	-	-	-	-	5,808	5,808
Unreserved:							
Undesignated	-	-	-	-	-	115,430	115,430
Designated for Debt Service	-	-	-	12,015	6,561	33,518	52,094
Designated for Special Projects	279,019	-	-	-	-	21,270	300,289
TOTAL FUND BALANCES	279,019	-	-	12,015	6,561	176,026	473,621
TOTAL LIABILITIES AND FUND BALANCES	\$ 296,252	\$ 40,601	\$ 7,831	\$ 12,015	\$ 6,561	\$ 195,261	
Reconciliation to amounts reported for governmental activities in the statement of net assets:							
Capital assets used by governmental activities							3,815,746
Long-term bonds, notes & leases payable for governmental activities							(2,984,535)
Compensated absences liability							(174,696)
Accrued interest expense							(24,705)
Net assets of governmental activities							\$ 1,105,431

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2006**

	General	Major Streets	Local Streets	2005 General Obligation Fire Hall	2005 Unlimited Obligation Fire Hall	Other Governmental Funds	Totals Governmental Funds
REVENUES:							
Taxes	\$ 844,252	\$ -	\$ -	\$ -	\$ -	\$ 118,811	\$ 963,063
Federal Sources	-	-	-	-	-	33,440	33,440
State Sources	166,996	106,471	46,228	-	-	8,640	328,335
Local Sources	124,539	-	-	-	-	-	124,539
Charges for Services	106,168	-	-	-	-	74,209	180,377
Interest & Rentals	6,162	38	53	398	831	1,405	8,887
Other Revenue	66,586	226	226	-	-	1,925	68,963
TOTAL REVENUES	1,314,703	106,735	46,507	398	831	238,430	1,707,604
EXPENDITURES:							
Legislative	2,284	-	-	-	-	-	2,284
General Government	514,173	-	-	-	-	-	514,173
Public Safety	252,518	-	-	-	-	183,533	436,051
Public Works	201,885	150,585	111,883	-	-	577	464,930
Recreation & Cultural	128,188	-	-	-	-	-	128,188
Capital Outlay	326,504	-	-	378,383	559,270	77,509	1,341,666
Debt Service	61,037	-	-	-	-	122,527	183,564
TOTAL EXPENDITURES	1,486,589	150,585	111,883	378,383	559,270	384,146	3,070,856
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(171,886)	(43,850)	(65,376)	(377,985)	(558,439)	(145,716)	(1,363,252)
OTHER FINANCING SOURCES (USES):							
Bond/Note Proceeds	263,479	-	-	390,000	565,000	-	1,218,479
Operating Transfers In	15,554	53,850	50,545	-	-	138,844	258,793
Operating Transfers Out	(156,239)	(10,000)	-	-	-	(10,554)	(176,793)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(49,092)	-	(14,831)	12,015	6,561	(17,426)	(62,773)
FUND BALANCES, JULY 1	340,246	-	14,831	-	-	195,184	550,261
ADJUSTMENTS TO FUND EQUITY:							
Prior Period Adjustment	(12,135)	-	-	-	-	(1,732)	(13,867)
FUND BALANCES, JULY 1, RESTATED	328,111	-	14,831	-	-	193,452	536,394
FUND BALANCES, JUNE 30	\$ 279,019	\$ -	\$ -	\$ 12,015	\$ 6,561	\$ 176,026	\$ 473,621

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006**

Net changes in fund balances – total governmental funds \$ (62,773)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$1,336,965 exceeded depreciation expense (\$253,052). 1,083,913

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:			
Bond principal	\$	59,000	
Installment principal		37,150	
Lease principal		<u>19,939</u>	
			116,089

Amounts reported as bond and lease proceeds in the fund financial statements that are not recognized as revenue in the statement of activities are reported here. (1,218,479)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	\$	(5,522)	
Accrued interest on bonds		<u>(18,615)</u>	
			<u>(24,137)</u>

Changes in net assets of governmental activities \$ (105,387)

Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds		Nonmajor Fund	
	Water & Sewer	Marina	Garbage & Rubbish	Totals
ASSETS:				
Cash & Investments - Unrestricted	\$ 53,422	\$ 112,029	\$ 29,897	\$ 195,348
- Restricted	368,649	-	-	368,649
Accounts Receivable	66,673	4,175	-	70,848
Inventories	-	15,027	1,854	16,881
Other Assets	-	3,627	-	3,627
Property, Plant & Equipment	4,219,132	1,745,651	-	5,964,783
Accumulated Depreciation	(1,321,479)	(1,017,993)	-	(2,339,472)
TOTAL ASSETS	\$ 3,386,397	\$ 862,516	\$ 31,751	\$ 4,280,664
LIABILITIES:				
Accounts Payable	\$ 15,731	\$ 612	\$ -	\$ 16,343
Accrued Liabilities	1,556	76	-	1,632
Accrued Interest Payable	5,090	443	-	5,533
Due to Other Governmental Units	-	4,154	-	4,154
Bonds Payable - Current	50,000	15,000	-	65,000
Bonds Payable	710,000	125,000	-	835,000
TOTAL LIABILITIES	782,377	145,285	-	927,662
NET ASSETS:				
Invested in Capital Assets (net of related debt)	2,137,653	587,658	-	2,725,311
Restricted for Debt	315,590	-	-	315,590
Unrestricted	150,777	129,573	31,751	312,101
TOTAL NET ASSETS	\$ 2,604,020	\$ 717,231	\$ 31,751	\$ 3,353,002

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Year Ended June 30, 2006**

	Enterprise Funds		Nonmajor Fund	
	Water & Sewer	Marina	Garbage & Rubbish	Totals
OPERATING REVENUES:				
State Sources	\$ 1,950	\$ -	\$ -	\$ 1,950
Charges for Services	671,540	337,573	38,625	1,047,738
Other Revenue	9,177	1,412	287	10,876
Total Operating Revenues	682,667	338,985	38,912	1,060,564
OPERATING EXPENSES:				
Employee Wages & Benefits	136,413	33,219	16,543	186,175
Plant Operation	263,606	-	-	263,606
Supplies	24,646	153,284	31,640	209,570
Repairs & Maintenance	25,035	8,257	-	33,292
Contracted Services	55,895	711	-	56,606
Insurance	8,598	2,836	-	11,434
Depreciation	103,571	45,470	-	149,041
Marina Operations	-	61,537	-	61,537
Other Expenses	15,877	10,636	-	26,513
Total Operating Expenses	633,641	315,950	48,183	997,774
OPERATING INCOME (LOSS)	49,026	23,035	(9,271)	62,790
NON-OPERATING REVENUES (EXPENSES):				
Interest Expense	(22,455)	(6,075)	-	(28,530)
Interest & Rentals	4,281	-	-	4,281
Operating Transfers Out	(77,000)	(5,000)	-	(82,000)
Total Non-operating Expenses	(95,174)	(11,075)	-	(106,249)
CHANGE IN NET ASSETS	(46,148)	11,960	(9,271)	(43,459)
NET ASSETS, JULY 1	2,651,838	706,392	41,022	3,399,252
ADJUSTMENTS TO NET ASSETS:				
PRIOR PERIOD ADJUSTMENT	(1,670)	(1,121)	-	(2,791)
NET ASSETS, JULY 1, RESTATED	2,650,168	705,271	-	-
NET ASSETS, JUNE 30	<u>\$ 2,604,020</u>	<u>\$ 717,231</u>	<u>\$ 31,751</u>	<u>\$ 3,353,002</u>

City of Frankfort, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2006

	Enterprise Funds		Nonmajor Fund	
	Water & Sewer	Marina	Garbage & Rubbish	Totals
Cash Flows From Operating Activities:				
Cash Received from Customers or Users	\$ 686,662	\$ 334,257	\$ 45,444	\$ 1,066,363
Cash Payments to Vendors & Employees	(527,376)	(267,708)	(48,183)	(843,267)
Net Cash Provided (Used) By Operating Activities	<u>159,286</u>	<u>66,549</u>	<u>(2,739)</u>	<u>223,096</u>
Cash Flows from Non-capital Financing Activities:				
Prior-period adjustment	(1,670)	(1,121)	-	(2,791)
Transfers (Out)	(77,000)	(5,000)	-	(82,000)
Net Cash Provided (Used) for Non-capital Financing Activities	<u>(78,670)</u>	<u>(6,121)</u>	<u>-</u>	<u>(84,791)</u>
Cash Flows From Capital and Related Financing Activities:				
Debt Principal Payments	(50,000)	(10,000)	-	(60,000)
Debt Interest Payments	(22,455)	(6,075)	-	(28,530)
Purchase of Property and Equipment	-	(14,792)	-	(14,792)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(72,455)</u>	<u>(30,867)</u>	<u>-</u>	<u>(103,322)</u>
Cash Flows From Investing Activities:				
Interest Income	4,281	-	-	4,281
Net Cash Provided (Used) by Investing Activities	<u>4,281</u>	<u>-</u>	<u>-</u>	<u>4,281</u>
Net Increase (Decrease) in Cash	12,442	29,561	(2,739)	39,264
Cash and Cash Equivalents at Beginning of Year	409,629	82,468	32,636	524,733
Cash and Cash Equivalents at End of Year	<u>\$ 422,071</u>	<u>\$ 112,029</u>	<u>\$ 29,897</u>	<u>\$ 563,997</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income	\$ 49,026	\$ 23,035	\$ (9,271)	\$ 62,790
Add Non-Cash Expenses:				
Depreciation	103,571	45,470	-	149,041
Changes in Assets and Liabilities:				
Decrease (Increase) in Assets:				
Receivables	3,995	(1,727)	-	2,268
Inventory	-	(3,146)	6,532	3,386
Other Assets	-	145	-	145
Increase (Decrease) in Liabilities:				
Due to Governmental Unit	-	3,297	-	3,297
Accounts Payable	3,869	5	-	3,874
Accrued Liabilities	(1,175)	(530)	-	(1,705)
Net Cash Provided (Used) By Operating Activities	<u>\$ 159,286</u>	<u>\$ 66,549</u>	<u>\$ (2,739)</u>	<u>\$ 223,096</u>

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Agency Funds		
	County	District	
	School Tax	Library	Totals
ASSETS:			
Cash & Cash Equivalents:			
Unrestricted	\$ 780	\$ 337	\$ 1,117
 TOTAL ASSETS	 \$ 780	 \$ 337	 \$ 1,117
LIABILITIES:			
Due to Other Governmental Units	\$ 780	\$ 337	\$ 1,117
 TOTAL LIABILITIES	 \$ 780	 \$ 337	 \$ 1,117

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Frankfort was incorporated as a Home Rule City on March 11, 1935 under the authority granted by the Constitution and laws of the State of Michigan under the 1909 Public Act 279, as amended. The City operates under a charter adopted May 20, 1935 and is governed by an elected Mayor and Council. The City provides services to its residents in many areas including law enforcement, fire protection, community enrichment and development, refuse collection and human services.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB No. 39; no other governmental organizations are considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14, as amended by GASB No. 39; for various governmental organizations to be included in the reporting entity's financial statement include legal separation, financial accountability and fiscal dependency.

Jointly Governed Organization

The City has formed a utilities authority with the Village of Elberta to own and operate a wastewater treatment plant that serves both communities. The Betsie Lake Utilities Authority (BLUA) is governed by a 5-member commission with representatives from each constituent municipality. The Authority is legally separate and not fiscally dependent on the City of Frankfort. It is therefore not a component of the City but rather a related organization. The Utility Authority, not being a part of the reporting entity, is audited under a separate contract; therefore it is not included in these financial statements. Complete financial statements can be obtained from the Betsie Lake Utility Authority, Frankfort, Michigan.

The City-County Airport Authority, an entity legally separate from the City, is governed by a five-member board. Two members are appointed from the County of Benzie; two members are appointed from the City of Frankfort; and the fifth member is appointed by the four members of the County and City.

For financial reporting purposes, the Authority is reported as a separate unit because the Authority can legally issue debt (although it has a letter of understanding with the City of Frankfort that no debt will be issued); levy tax revenue if desired; and adopt and amend its own budget. In the event of the Authority being dissolved, it will be reverted to the City of Frankfort. The Authority operates on a June 30 year end and is audited under a separate contract. Complete financial statements can be obtained from the County of Benzie, P.O. Box 377, 448 Court Place, Beulah, MI 49617.

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including its fiduciary-funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services and sales, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets. The Major Street Fund is used to account for the repair, maintenance, and construction of the City's major streets.

Local Streets. The Local Street Fund is used to account for the repair, maintenance, and construction of the City's local streets.

2005 General Obligation Fire Hall. The 2005 General Obligation Fire Hall Fund is used to account for bond proceeds received to finance the construction of the City Fire Hall.

2005 Unlimited Obligation Fire Hall. The 2005 Unlimited General Obligation Fire Hall Fund is used to account for bond proceeds received to finance the construction of the City Fire Hall.

The City reports the following major enterprise funds:

Water and Sewer. This fund accounts for the operation, maintenance, and development of water and sewer utilities.

Marina. This fund accounts for the operation, maintenance and development of the Marina.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The City reports the following fund types:

Governmental Funds

General Fund. Described above.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Funds. The Tri Centennial Trust is the City's permanent fund. The principle portion of this fund must stay intact, but the interest earnings are used to provide for the trust's purpose.

Enterprise Funds. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Agency Funds. These funds account for monies held on behalf of other government units, employees, and retirement boards that use the City as a custodian.

Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Assets, Liabilities, and Equity**Cash and Cash Equivalents**

The City considers cash and cash equivalents to be cash on hand and demand deposits and investments with a maturity of 90 days or less. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 consist of the road network assets bridges, sidewalks, and storm sewers that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. All assets with a cost of \$500 or more and useful life of one (1) year or more are capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure - Sidewalks	10 – 30 years
- Roads	10 – 30 years
- Bridges	50
- Storm sewers	50
- Water & Sewer Systems	40
Buildings	30 – 50
Building improvements	15 – 20
Vehicles	2 – 15
Machinery	3 – 15
Office equipment	3 – 15
Computer equipment	3 – 15

Budgetary Data

The City Clerk/Treasurer prepares and submits a proposed operating budget for the General Fund, Special Revenue Funds, Debt Service, and Capital Project Funds to the City Council for its review and consideration. The Council conducts a public hearing and subsequently adopts the operating budget. The Council approves all budget amendments. The budget is adopted at the activity level and is prepared on the modified accrual basis of accounting which is the same basis as the financial statements of the applicable funds. The budgets lapse at year-end.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)
Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

NOTE 2 - CASH AND INVESTMENTS:

	Primary Government	Fiduciary Funds
Cash and Investments:		
- Unrestricted	\$ 275,696	\$ 1,117
- Restricted	<u>671,762</u>	<u>-</u>
Total	<u>\$ 947,458</u>	<u>\$ 1,117</u>
Imprest	\$ 653	\$ -
CD's savings and checking	<u>946,805</u>	<u>1,117</u>
Total	<u>\$ 947,458</u>	<u>\$ 1,117</u>

Deposits:

These deposits are in various financial institutions located in Benzie County in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 2 - CASH AND INVESTMENTS: (Continued)

Cash and Investments – Restricted:

The following funds have restricted cash and investments for various purposes:

Primary Government:

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund:		
	Capital Outlay	\$ 9,982
	Equipment Reserve	23,678
	DPW Improvements	15,750
	Park Improvements	8,750
	Launch Ramp Improvements	24,000
	Building Reserve	3,336
	Grant Match	47,644
	Land Contract	5,000
	Compensated Absences	2,177
	Fire District	16,103
	Police Car	1,106
Major Streets:		
	Equipment Reserve	15,031
Debt Service:		
	Debt Service	61,719
Water and Sewer:		
	Equipment Reserve	4,660
	Improvement-Water	97,251
	Emergency	7,965
	Sewer Bond	58,762
	Improvement-Sewer	18,693
	Wellhead Projection	21,164
	Water Meter	5,202
	Improvement-Water	78,278
	Launch Ramp	1,346
	Sewer Bond	417
	Improvement-Water	74,911
Fire Fund:		
	Fire Equipment	63,029
Tri-Centennial Trust:		
	Trust Purposes	<u>5,808</u>
		<u>\$ 671,762</u>

NOTE 2 - CASH AND INVESTMENTS: (Continued)

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$847,676 of the City's bank balance of \$953,474 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority

Michigan law (Public Act 20 of 1943, as amended) authorizes the City of Frankfort to deposit and invest in one or more of the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in a.
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (h) Obligation described in a. through g. if purchased through an interlocal agreement under the urban corporation act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.

NOTE 2 - CASH AND INVESTMENTS: (Continued)

- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The City of Frankfort reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds.

Interfund balances at June 30, 2006 consisted of the following:

	DUE FROM			
	Major Streets	Local Streets	All Others	Total
DUE TO General Fund	\$ 39,299	\$ 7,831	\$ 9,500	\$ 56,630

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2006 consisted of the following:

	TRANSFER FROM					
	General Fund	Major Streets	Water & Sewer	Marina	All Others	Total
TRANSFER TO General Fund	\$ -	\$ -	\$ -	\$ 5,000	\$ 10,554	\$ 15,554
Major Streets	53,850	-	-	-	-	53,850
Local Streets	40,545	10,000	-	-	-	50,545
All Others	61,844	-	77,000	-	-	138,844
Total	\$ 156,239	\$ 10,000	\$ 77,000	\$ 5,000	\$ 10,554	\$ 258,793

NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS: (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 4 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
<i>Capital assets not depreciated:</i>				
Land & land improvements	\$ 278,737	\$ 85,600	\$ -	\$ 364,337
Construction in progress	-	859,320	-	859,320
Total assets not depreciated	278,737	944,920	-	1,223,657
<i>Capital assets being depreciated:</i>				
Land improvements	891,870	-	-	891,870
Buildings and improvements	1,932,869	54,609	-	1,987,478
Machinery and equipment	1,133,498	337,436	-	1,470,934
Total capital assets being depreciated	3,958,237	392,045	-	4,350,282
<i>Less accumulated depreciation for:</i>				
Land improvements	(126,518)	(48,895)	-	(175,413)
Buildings and improvements	(590,717)	(46,005)	-	(636,722)
Machinery and equipment	(787,906)	(158,152)	-	(946,058)
Total accumulated depreciation	(1,505,141)	(253,052)	-	(1,758,193)
Total capital assets being depreciated, net	2,453,096	138,993	-	2,592,089
Governmental activities capital assets, net	\$ 2,731,833	\$ 1,083,913	\$ -	\$ 3,815,746

NOTE 4 - CAPITAL ASSETS: (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Capital assets not depreciated:</i>				
Land	\$ 17,000	\$ -	\$ -	\$ 17,000
<i>Capital assets being depreciated:</i>				
Land improvements	5,000	-	-	5,000
Water system	2,637,100	-	-	2,637,100
Sewer system	1,418,482	-	-	1,418,482
Marina	1,599,539	7,300	-	1,606,839
Equipment	272,870	7,492	-	280,362
Total capital assets being depreciated	5,932,991	14,792	-	5,947,783
<i>Less accumulated depreciation for:</i>				
Land improvements	-	(250)	-	(250)
Water system	(586,756)	(61,639)	-	(648,395)
Sewer system	(532,214)	(32,326)	-	(564,540)
Marina	(897,599)	(40,171)	-	(937,770)
Equipment	(173,862)	(14,655)	-	(188,517)
Total accumulated depreciation	(2,190,431)	(149,041)	-	(2,339,472)
Total capital assets being depreciated, net	3,742,560	(134,249)	-	3,608,311
Business-type activities capital assets, net	\$ 3,759,560	\$ (134,249)	\$ -	\$ 3,625,311

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 50,556
Public Safety	86,777
Public Works	93,349
Recreation and Culture	22,370
Total Governmental Activities	\$ 253,052

NOTE 5 - LONG-TERM DEBT:

General Long-Term Debt - The bonds payable reflected in the basic financial statements consist of general obligation notes incurred by the City of Frankfort. The City has pledged the general full faith and credit of the City for the payment of principal and interest on the bonds.

Changes in long-term debt during the twelve months ending June 30, 2006 are summarized as follows:

	Balance 07/01/05	Additions	Deductions	Balance 06/30/06	Due Within One Year
Enterprise Funds:					
2003 Marina Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$10,000 to \$20,000 and bearing interest of 4.25%. Secured by revenues of the Marina.	\$ 150,000	\$ -	\$ 10,000	\$ 140,000	\$ 15,000
1993 Sewage Disposal System Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$5,000 to \$15,000 and bearing interest from 2.9% to 5.9%. Secured by net revenues of sewer system and, if applicable, ad valorem tax levy.	105,000	-	10,000	95,000	10,000
1998 Water Supply System Revenue Bonds maturing serially to 2019 in annual amounts ranging from \$35,000 to \$55,000 and bearing interest of 2.50%. Secured by net revenues of the water system.	705,000	-	40,000	665,000	40,000
Total Enterprise Funds	960,000	-	60,000	900,000	65,000
General Long-Term Debt:					
Decorative Street Lighting Installment Purchase Agreement payable in monthly installments at an annual interest rate of 5.0%.	79,328	-	37,150	42,178	39,078
2004 General Obligation Unlimited Tax Bonds maturing serially to 2034 in annual amounts ranging from \$19,000 to \$63,000 at an interest rate of 4.375%.	1,066,000	-	19,000	1,047,000	20,000
1998 General Obligation Unlimited Tax Water Bonds maturing serially to 2019 in annual amounts ranging from \$35,000 to \$55,000 at an interest rate of 2.50%.	705,000	-	40,000	665,000	40,000

NOTE 5 - LONG-TERM DEBT: (Continued)

	Balance 07/01/05	Additions	Deductions	Balance 06/30/06	Due Within One Year
2006 Installment Loan Purchase Agreement for a Fire Truck through West Michigan National Bank & Trust.	-	158,498	-	158,498	-
2005 Installment Loan Purchase Agreement for Dump Truck through State Savings Bank.	-	104,981	-	104,981	13,158
2005 General Obligation Unlimited Tax Bonds, maturing serially to 2025 in annual amounts ranging from \$5,000 to 75,000 at an interest rate of 4.650%.	-	565,000	-	565,000	-
2005 Limited Tax Capital Improvement Bonds, maturing serially to 2020 in annual amounts from \$10,000 to \$40,000 at an interest rate of 4.500%	-	390,000	-	390,000	10,000
Accrued sick leave and vacation	169,174	5,522	-	174,696	-
Total General Long-Term Obligations	2,019,502	1,224,001	96,150	3,147,353	122,236
TOTAL LONG TERM OBLIGATIONS	\$ 2,979,502	\$ 1,224,001	\$ 156,150	\$ 4,047,353	\$ 187,236

The annual principal and interest requirements for the years ending June 30, 2006 and after, excluding accrued compensated absences are as follows:

	Business-type Activities		Governmental Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal:						
2007	65,000	27,361	122,236	140,221	187,236	167,582
2008	65,000	25,134	101,740	114,813	166,740	139,947
2009	70,000	22,906	121,295	111,088	191,295	133,994
2010	75,000	20,322	126,966	106,389	201,966	126,711
2011	80,000	17,568	143,672	101,243	223,672	118,811
2012-2016	330,000	48,730	755,247	418,413	1,085,247	467,143
2017-2021	215,000	10,939	720,501	270,488	935,501	281,427
2022-2026	-	-	446,000	155,966	446,000	155,966
2027-2031	-	-	254,000	73,894	254,000	73,894
2032-2034	-	-	181,000	16,056	181,000	16,056
TOTALS	\$ 900,000	\$ 172,960	\$ 2,972,657	\$ 1,508,571	\$ 3,872,657	\$ 1,681,531

Interest on expense of the business-type activities is included as a direct expense of water and sewer and marina operations. Interest expense of the governmental activities is unallocated.

NOTE 6 - COMPENSATED ABSENCES:

Accumulated unpaid vacation, sick leave and longevity for police and other City employees are recorded in the basic financial statements. Based upon union contracts and personnel policies, as of June 30, 2006, the liability totaled \$174,696.

Vacation is earned in varying amounts based on an employee's years of service. Accrued vacation for salaried and nonunion employees' leave is limited to the amount earned in the prior year, except by mutual agreement between the City and the employees. Employees of the City Police Department are allowed to carry over a maximum of 40 hours of vacation from one year to the next.

Sick leave is earned at a rate of 1 day per month of service and is limited to 120 days accumulation per employee.

NOTE 7 - PROPERTY TAXES:

City property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are transferred to Benzie County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

The taxable value of real and personal property located in the City at December 31, 2005 totaled \$61,578,892. The tax levy for that year was based on the following rates:

	Millage Rate Used
General Operating	1.37147
Water and Sewer Debt	.09277
City Hall	.10036

NOTE 8 - FUND BALANCE/RETAINED EARNING DESIGNATIONS/RESERVES:

General Fund

The General Fund balance is designated by \$279,019 for special projects.

Water and Sewer Fund

The Water and Sewer Fund Retained Earnings balance is reserved by \$315,590 to reflect the monies reserved for future maintenance projects, debt payments, and capital outlays for the water and sewer system.

Tri Centennial Trust

The Tri Centennial Trust Fund balance is reserved for trust purposes.

NOTE 9 - DEFINED BENEFIT PENSION PLAN:

The City of Frankfort participates in a statewide government agent multiple-employer public pension plan which covers substantially all employees.

Plan Description

The City contributes to the Michigan Municipal Employees Retirement System, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. All full-time employees become a member of the System on the first day of employment, and are completely vested after 10 years of service. Service retirement allowances are based upon percentages ranging from 1 to 2.5 percent of 3 to 5-year final average compensation depending on benefit program selected social security coverage, etc. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and personnel policy, which requires employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at December 31, 2005 is as follows:

General - Employees	10.80%
General – Police	17.52%

Annual Pension Cost

During the fiscal year ended June 30, 2006, the City's contributions totaling \$69,892 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2005. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

NOTE 9 - DEFINED BENEFIT PENSION PLAN: (Continued)

Three year trend information as of December 31 follows:

	2003	2004	2005
Actuarial Value of Assets	\$ 1,399,955	\$ 1,471,778	\$ 1,541,927
Actuarial Accrued Liability	1,858,960	2,039,461	2,188,886
Unfunded AAL	459,005	567,683	646,959
Funded Ratio	75%	72%	70%
Covered Payroll	548,033	525,919	535,803
UAAL as a Percentage of Covered Payroll	84%	108%	121%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 62,228	100%	0
2005	54,080	100%	0
2006	69,892	100%	0

NOTE 10 - COMMITMENTS AND CONTINGENCIES:

Grant Assistance - The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2006.

Bonds Payable - The City has pledged its full faith and credit for payment of principal and interest of the various bond issues of the Water and Sewer Fund. The general obligation bonds payable for the Water and Sewer Fund are recorded as liabilities in the Enterprise Fund.

Property Taxes - In accordance with an agreement, Benzie County annually purchases real property taxes and delinquent special assessments (included on the tax bills) which have not been paid as of March 1 from the City. The County has recourse against the City for amounts which remain unpaid.

Litigation - The City is involved in various lawsuits now pending. It is the opinion of the City and of its counsel that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions are not currently determinable.

NOTE 11 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its automobile, property, general liability, and Worker's Compensation insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$250 for each insured event.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City is unable to provide an estimate of the amounts of any potential additional assessments.

NOTE 12 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

Segment information for the year ended June 30, 2006, is as follows:

	Water and Sewer	Marina
Nonoperating revenue (expense)	\$ (95,174)	\$ (11,075)
Operating income (loss)	49,029	23,035
Changes in net assets	(46,148)	11,960
Operating revenues	682,667	338,985
Operating expenses	633,641	315,950
Operating transfers – net	(77,000)	(5,000)
Depreciation	103,571	45,470
Total assets	3,386,397	862,516
Current liabilities	72,377	20,285
Long-term debt payable	710,000	125,000
Beginning net assets	2,651,838	706,392
Ending net assets	2,604,020	717,231
Cash provided by:		
Operating activities	159,286	66,549
Noncapital financing	(78,670)	(6,121)
Capital financing	(72,455)	(30,867)
Investing	4,281	-
Beginning cash	409,629	82,468
Ending cash	422,071	112,029

NOTE 13 - RELATED PARTIES:

The Betsie Lake Utility Authority was created by the City of Frankfort and the Village of Elberta to provide water and sewer services for the two municipalities. The two units bill and collect charges to the public for the private use of the system. The Authority in turn bills the two municipalities for use and debt service fees.

NOTE 14 - EXCESS EXPENDITURES OVER APPROPRIATIONS:

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures were in excess of amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Capital Outlay	\$ 41,119	\$ 326,504	\$ (285,385)

NOTE 15 - LEASE OBLIGATIONS:

During fiscal 2005, the City executed a noncancelable capital lease for the purchase of \$39,969 of office equipment. Subsequent payments are as follows:

2007	\$ 11,984
2008	<u>-</u>
Total Payments	11,984
Interest Portion	<u>(106)</u>
Net Present Value of Minimum	
Lease Payments	\$ 11,878
Interest Rate	2.66%
Monthly Payment	\$ 1,712

NOTE 16 - POST EMPLOYMENT BENEFITS:

The City provides post-employment health care benefits to all retired employees and/or their spouse and life insurance benefits for one retiree only. The benefits are provided in accordance with the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the City agrees to pay for the supplemental health insurance coverage for both.

For all employees the City agrees to pay the premium for each employee and their spouse at time of retirement. Employees may elect to have coverage provided to children at the employee's expense.

In order for an employee to be eligible for health care benefits at retirement, the employee must retire from active service with the City at age 60 with 10 years of service for Division 1 (general) or at age 50 with 25 years of service for Division 2 (police).

NOTE 16 - POST EMPLOYMENT BENEFITS: (Continued)

During 2006 retirees and/or spouses were eligible for the post-employment health care benefits at a cost of \$85,685 and one retiree was eligible for life insurance benefits at a cost of \$252. The City's policy is to finance these benefits on a pay-as-you-go basis.

NOTE 17 - PRIOR PERIOD ADJUSTMENT:

During the fiscal year 2005, \$16,658 in expenses were not recorded due to an error in the computer system. To correct this problem, the fund balances of each of the following funds had to be adjusted by the amount indicated:

General Fund	\$ (12,135)
Fire Fund	(1,732)
Water & Sewer	(1,670)
Marina	<u>(1,121)</u>
Total	<u>\$ (16,658)</u>

Required Supplemental Information

**Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 848,426	\$ 846,051	\$ 844,252	\$ (1,799)
State Sources	149,086	146,135	166,996	20,861
Local Sources	223,125	131,985	124,539	(7,446)
Charges for Services	105,033	97,318	106,168	8,850
Interest & Rentals	8,100	5,911	6,162	251
Other Revenue	70,176	61,774	66,586	4,812
TOTAL REVENUES	1,403,946	1,289,174	1,314,703	25,529
EXPENDITURES:				
Legislative:				
City Council	3,481	2,284	2,284	-
General Government:				
City Superintendent	119,846	121,724	121,907	(183)
Elections	4,300	1,864	1,864	-
City Assessor	19,060	19,357	19,354	3
City Clerk/Treasurer	132,696	131,952	131,950	2
Board of Review	400	268	268	-
City Hall	23,993	35,230	36,031	(801)
Other General Government	149,483	224,817	202,799	22,018
Total General Government	449,778	535,212	514,173	21,039
Public Safety:				
Police Department	265,219	253,723	252,518	1,205
Total Public Safety	265,219	253,723	252,518	1,205
Public Works:				
Highways & Streets	159,061	181,102	184,521	(3,419)
Sanitation	26,850	16,945	17,364	(419)
Total Public Works	185,911	198,047	201,885	(3,838)
Recreation & Cultural:				
Launch Ramp	32,377	26,322	27,829	(1,507)
Parks	94,716	102,539	100,359	2,180
Total Recreation & Cultural	127,093	128,861	128,188	673
Capital Outlay	26,588	41,119	326,504	(285,385)
Debt Service	61,149	57,789	61,037	(3,248)
TOTAL EXPENDITURES	1,119,219	1,217,035	1,486,589	(269,554)
EXCESS OF REVENUES OVER EXPENDITURES	284,727	72,139	(171,886)	(244,025)
OTHER FINANCING SOURCES (USES):				
Bond/Note Proceeds	-	-	263,479	263,479
Operating Transfers In	-	2,804	15,554	12,750
Operating Transfers Out	(126,190)	(156,239)	(156,239)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 158,537	\$ (81,296)	(49,092)	\$ 32,204
FUND BALANCE, JULY 1			340,246	
ADJUSTMENTS TO FUND EQUITY				
Prior Period Adjustment			(12,135)	
FUND BALANCE, JULY 1, RESTATED			328,111	
FUND BALANCE, JUNE 30			\$ 279,019	

**Required Supplemental Information
Budgetary Comparison Schedule
Major Streets Fund
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 112,940	\$ 110,537	\$ 106,471	\$ (4,066)
Interest & Rentals	100	20	38	18
Other Revenues	226	226	226	-
TOTAL REVENUES	113,266	110,783	106,735	(4,048)
EXPENDITURES:				
Public Works	149,489	147,893	150,585	(2,692)
TOTAL EXPENDITURES	149,489	147,893	150,585	(2,692)
 EXCESS OF REVENUES OVER EXPENDITURES	 (36,223)	 (37,110)	 (43,850)	 (1,356)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	46,449	53,850	53,850	-
Operating Transfers Out	(10,000)	(10,000)	(10,000)	-
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	 <u>\$ 226</u>	 <u>\$ 6,740</u>	 -	 <u>\$ (1,356)</u>
 FUND BALANCE, JULY 1			 -	
 FUND BALANCE, JUNE 30			 <u>\$ -</u>	

City of Frankfort, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 48,584	\$ 46,181	\$ 46,228	\$ 47
Interest & Rentals	20	52	53	1
Other Revenues	-	226	226	-
TOTAL REVENUES	48,604	46,459	46,507	48
EXPENDITURES:				
Public Works	98,915	109,948	111,883	(1,935)
TOTAL EXPENDITURES	98,915	109,948	111,883	(1,935)
EXCESS OF REVENUES OVER EXPENDITURES	(50,311)	(63,489)	(65,376)	(1,887)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	49,561	50,545	50,545	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (750)</u>	<u>\$ (12,944)</u>	(14,831)	<u>\$ (1,887)</u>
FUND BALANCE, JULY 1			14,831	
FUND BALANCE, JUNE 30			<u>\$ -</u>	

Other Supplemental Information

City of Frankfort, Michigan

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds						Debt Service Funds		
	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	City Hall Fire Building	MEDC Streetscape	1989 General Obligation Bonds	GO Bonds Water Improvement	Main Street Bonds
ASSETS:									
Cash & Investments - Unrestricted	\$ 12,429	\$ 2,262	\$ 1,740	\$ 770	\$ 41,634	\$ 2,500	\$ -	\$ -	\$ -
Cash & Investments - Restricted	63,029	-	-	-	-	-	3,938	5,986	6,612
Due from Governmental Units	11,145	3,328	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 86,603	\$ 5,590	\$ 1,740	\$ 770	\$ 41,634	\$ 2,500	\$ 3,938	\$ 5,986	\$ 6,612
LIABILITIES:									
Due to Other Funds	\$ 7,000	\$ -	\$ -	\$ -	\$ -	\$ 2,500	\$ -	\$ -	\$ -
Accounts Payable	110	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	7,110	-	-	-	-	2,500	-	-	-
FUND BALANCES:									
Reserved	-	-	-	-	-	-	-	-	-
Unreserved:									
Undesignated	65,696	5,590	1,740	770	41,634	-	-	-	-
Designated for Debt Service	-	-	-	-	-	-	3,938	5,986	6,612
Designated for Special Projects	13,797	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES	79,493	5,590	1,740	770	41,634	-	3,938	5,986	6,612
TOTAL LIABILITIES AND FUND BALANCES	\$ 86,603	\$ 5,590	\$ 1,740	\$ 770	\$ 41,634	\$ 2,500	\$ 3,938	\$ 5,986	\$ 6,612

City of Frankfort, Michigan

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Debt Service Funds	Capital Project Funds		Permanent Trust Funds	
	USDA Water & Sewer	Capital Improvement Bond	Main Street Project	Tri Centennial Trust	Totals
ASSETS:					
Cash & Investments - Unrestricted	\$ -	\$ 1,015	\$ 6,458	\$ -	\$ 68,808
Cash & Investments - Restricted	26,607	-	-	5,808	111,980
Due from Governmental Units	-	-	-	-	14,473
TOTAL ASSETS	\$ 26,607	\$ 1,015	\$ 6,458	\$ 5,808	\$ 195,261
LIABILITIES:					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 9,500
Accounts Payable	9,625	-	-	-	9,735
TOTAL LIABILITIES	9,625	-	-	-	19,235
FUND BALANCES:					
Reserved	-	-	-	5,808	5,808
Unreserved:					
Undesignated	-	-	-	-	115,430
Designated for Debt Service	16,982	-	-	-	33,518
Designated for Special Projects	-	1,015	6,458	-	21,270
TOTAL FUND BALANCES	16,982	1,015	6,458	5,808	176,026
TOTAL LIABILITIES AND FUND BALANCES	\$ 26,607	\$ 1,015	\$ 6,458	\$ 5,808	\$ 195,261

City of Frankfort, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds For the Year Ended June 30, 2006

	Special Revenue Funds						Debt Service Funds		
	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	City Hall Fire Building	MEDC Streetscape	1989 General Obligation Bonds	GO Bonds Water Improvement	Main Street Bonds
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 61,752	\$ -	\$ -	\$ 57,050	\$ 9
Federal Sources	33,440	-	-	-	-	-	-	-	-
State Sources	8,640	-	-	-	-	-	-	-	-
Charges for Services	67,164	7,045	-	-	-	-	-	-	-
Interest & Rentals	837	25	16	10	-	-	20	202	-
Other Revenue	1,925	-	-	-	-	-	-	-	-
TOTAL REVENUES	112,006	7,070	16	10	61,752	-	20	57,252	9
EXPENDITURES:									
Public Safety	172,837	10,696	-	-	-	-	-	-	-
Public Works	-	-	-	577	-	-	-	-	-
Capital Outlay	-	-	-	-	17,491	-	-	-	-
Debt Service	-	-	-	-	65,363	-	-	57,125	39
TOTAL EXPENDITURES	172,837	10,696	-	577	82,854	-	-	57,125	39
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(60,831)	(3,626)	16	(567)	(21,102)	-	20	127	(30)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	35,913	4,267	-	-	21,664	-	-	-	-
Operating Transfers Out	(7,750)	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(32,668)	641	16	(567)	562	-	20	127	(30)
FUND BALANCES, JULY 1	113,893	4,949	1,724	1,337	41,072	-	3,918	5,859	6,642
Prior Period Adjustment	(1,732)	-	-	-	-	-	-	-	-
FUND BALANCES, JULY 1, RESTATED	112,161	4,949	1,724	1,337	41,072	-	3,918	5,859	6,642
FUND BALANCES, JUNE 30	\$ 79,493	\$ 5,590	\$ 1,740	\$ 770	\$ 41,634	\$ -	\$ 3,938	\$ 5,986	\$ 6,612

City of Frankfort, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds For the Year Ended June 30, 2006

	Debt Service Funds	Capital Project Funds		Permanent Trust Funds	
	USDA Water & Sewer	Capital Improvement Bond	Main Street Project	Tri Centennial Trust	Totals
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 118,811
Federal Sources	-	-	-	-	33,440
State Sources	-	-	-	-	8,640
Charges for Services	-	-	-	-	74,209
Interest & Rentals	-	8	61	226	1,405
Other Revenue	-	-	-	-	1,925
TOTAL REVENUES	-	8	61	226	238,430
EXPENDITURES:					
Public Safety	-	-	-	-	183,533
Public Works	-	-	-	-	577
Capital Outlay	60,018	-	-	-	77,509
Debt Service	-	-	-	-	122,527
TOTAL EXPENDITURES	60,018	-	-	-	384,146
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(60,018)	8	61	226	(145,716)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	77,000	-	-	-	138,844
Operating Transfers Out	-	(2,804)	-	-	(10,554)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	16,982	(2,796)	61	226	(17,426)
FUND BALANCES, JULY 1	-	3,811	6,397	5,582	195,184
Prior Period Adjustment	-	-	-	-	(1,732)
FUND BALANCES, JULY 1, RESTATED	-	3,811	6,397	5,582	193,452
FUND BALANCES, JUNE 30	<u>\$ 16,982</u>	<u>\$ 1,015</u>	<u>\$ 6,458</u>	<u>\$ 5,808</u>	<u>\$ 176,026</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members
of the City Council
City of Frankfort, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City of Frankfort, Michigan's basic financial statements and have issued our report thereon, dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Frankfort, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Frankfort, Michigan in a separate letter dated September 29, 2006.

Honorable Mayor and Members
of the City Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Frankfort, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 06-1.

We also noted certain immaterial instances of noncompliance, which we have reported to management of the City of Frankfort, Michigan in a separate letter dated September 29, 2006.

This report is intended solely for the information and use of the Mayor, City Council, Management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 29, 2006

Section II - Financial Statement Findings

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 06-1

Condition: Our examination of procedures used by the City to adopt and maintain operating budgets for the City's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The City's 2005-2006 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled at the functional expenditure level. As detailed, actual 2005-2006 expenditures exceeded the board's approved budget allocations for one of the General Funds functional expenditures.

During the fiscal year ended June 30, 2006, expenditures were incurred in excess of amounts appropriated in the amended budget for the General Fund as listed in Note 14 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Recommendation: We recommend that the City and personnel responsible for administering the activities of the various funds of the City, develop budgetary control procedures for the General Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

- Contact Person(s) Responsible for Correction:
Kim Kidder, Treasurer/Clerk
- Corrective Action Planned:
Management has agreed to correct the problem by monitoring the budgets closely and performing budget amendments on a timely basis.
- Anticipated Completion Date:
September 30, 2006

Additional Information

CITY OF FRANKFORT, MICHIGAN

ADDITIONAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Honorable Mayor and Members
of the City Council
City of Frankfort, Michigan

Our report on our audit of the basic financial statements of the City of Frankfort, Michigan, as of and for the year ended June 30, 2006, appears on page 1. That audit was conducted for the purpose of forming opinions on the basic financial statements. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 29, 2006

NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES REQUIREMENTS:

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2006, the City has the following debt issues which apply to SEC Rule 15c2-12. As of June 30, 1999 the City agreed to provide the following disclosures relating to the following debt issue of Betsie Lake Utility Authority which applies to SEC Rule 15c2-12.

1. \$2,025,000 Sewage Disposal System Revenue Refunding Bonds, Series 2000.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12.

A. Number of Sewer Customers by Water Classification:

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Governmental	Other	Total Number of Meters	Percent Change
1999	849	129	7	14	16	1,015	0.10
2000	913	129	7	14	16	1,079	6.00
2001	725	109	8	14	74	930	14.00
2002	751	114	7	10	22	904	3.00
2003	751	111	9	12	22	905	0.11
2004	728	140	12	12	23	915	1.00
2005	732	141	12	14	23	922	0.76
2006	787	108	9	12	20	936	1.52

Source: City of Frankfort

B. Residential Sewage Disposal Service Rates:

Fiscal Year Ended or Ending June 30	Monthly Ready-to-Serve Charge (1)	Charge Per 1,000 Gallons
1999	18.00	3.00
2000	18.00	3.00
2001	18.00	3.00
2002	18.00	3.00
2003	18.00	3.00
2004	18.00	3.00
2005	18.00	3.00
2006	18.00	3.00

(1) Commercial and industrial ready-to-serve charges are based on residential ready-to-serve charges multiplied by a monthly Residential Equivalent Unit ("REA") factor.

Source: City of Frankfort

NOTE 2 - TABLES: (Continued)

C. Daily Industrial Surcharges for Sewage Disposal Service:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Wastewater with BOD > 300 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with suspend solids > 300 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with COD > 450 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with phosphorous > 15 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00

Source: City of Frankfort

D. Water Consumption as Billed by Meter Classification (1):

<u>Fiscal Year Ended June 30</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Municipalities</u>	<u>Other</u>	<u>Total</u>	<u>Percent Change</u>
2000	40,320,479	14,421,143	5,378,380	279,470	6,618,591	67,018,063	(29.60)
2001	50,420,845	15,242,996	5,420,360	1,433,970	2,812,338	75,330,509	12.00
2002	40,489,052	19,648,287	3,451,600	1,277,320	2,443,530	67,309,789	11.00
2003	38,091,207	17,870,633	2,707,556	2,901,570	1,353,425	62,924,391	(6.50)
2004	35,741,251	18,145,503	1,588,833	832,080	1,367,215	57,674,882	(8)
2005	41,105,917	14,425,720	1,642,910	1,607,143	1,305,199	60,086,889	4.18
2006	47,770,661	15,292,617	5,025,309	2,227,316	2,167,526	66,483,729	10.65

(1) In gallons.

* Discrepancies are due to reclassification of various accounts.

Source: City of Frankfort



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REPORT TO MANAGEMENT

To the Honorable Mayor
and City Commission
City of Frankfort, Michigan

We have audited the basic financial statements of the City of Frankfort, Michigan for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Frankfort. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Frankfort's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our test was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Frankfort are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the City of Frankfort during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that the future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Frankfort's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Frankfort, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Frankfort's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Frankfort's financial statements or a determination of the type of auditors' opinion to be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Frankfort's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Enterprise Fixed Assets (Prior Year)

Fixed asset purchases for the enterprise funds were recorded as capital outlay expenses during fiscal 2001, 2002, 2003, 2005, and 2006. Fixed asset purchases for the enterprise funds should be recorded in the applicable fixed asset account in the general ledger to comply with U.S. generally accepted accounting principles.

Accounting Procedures Manual (Prior Year)

The City does not maintain a complete current accounting policies and procedures manual. We recommend the City develop an accounting policies and procedures manual which includes but is not limited to information regarding the criteria for establishing or discontinuing a fund, activities to be accounted for in each fund, closing practices to be followed for preparation of financial reports, and job/responsibility descriptions of each employee.

General Fixed Assets (Prior Year)

A fixed asset listing at the time of audit had not been completed, though staff had accumulated new-tagged assets and support documentation. The fixed asset listing should be updated to reflect these assets as well as deletions found during the audit. Also we recommend increasing the capitalization policy threshold to \$5,000.

General Ledger (Prior Year)

Several accounts (receivables, payables, interfund loans, transfers, and fund equity) needed to be reconciled at year end. We recommend that management reconcile all accounts to supporting information periodically.

Clearing Funds

The City has two clearing funds, accounts payable, and payroll. The funds by their definition should only act as means of paying bills and payroll. The funds should not maintain any surplus or deficit cash. At year end, the accounts payable fund has surplus cash and the payroll fund has deficit cash. We recommend that this issue be further researched to ensure that the funds are operating as intended.

Cash

At year end, common cash per the bank was not completely reconciled to the common cash per the general ledger. We recommend that the bank balance be reconciled to the general ledger.

Prior Period Adjustment

During the fiscal year 2005, expenses were entered into the accounting system using the period number thirteen. This period is usually used to record journal entries after the year has been closed. The expenses that were recorded using this period never reached the trial balances. Therefore, there was \$16,658 in expenses that were not recorded in the 2005 financial statements. We recommend that this period is no longer used to record regular transactions.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Frankfort, Michigan being required to implement the Statement for the year ended June 30, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning in 2009, the City will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Commission should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Personal Property Taxes

Currently, the City is not recording the amount of outstanding delinquent personal property taxes that are due to the City in the general ledger. It is recommended the City record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The City should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each tax payer by individual tax year.

Conclusion

This information is intended solely for the use of the Mayor, City Commission, and management of the City of Frankfort and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 29, 2006